

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
THE HELP II PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Bloss Memorial Healthcare District ("BMHCD") 3605 Hospital Road, Suite H Atwater, CA 95301</p> <p><b>Projects Sites:</b> Same as above, County of Merced</p> <p><b>Facilities Type:</b> Rural Health Clinics, Optometry, Lab, Radiology, and Adult Day Health Center / Healthcare District</p> <p><b>Prior HELP II Borrower:</b> No</p>	<p><b>Amount Requested:</b> \$427,500</p> <p><b>Requested Loan Term:</b> 5 years</p> <p><b>Date Requested:</b> May 29, 2008</p> <p><b>Resolution Number:</b> HII- 221</p>
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**Background:** BMHCD was established in 1958. BMHCD provides services as a Rural Health clinic at the hospital site and another in the nearby city of Winton to serve the needs of that community. In 1998, BMHCD was provided the use of the vacated Castle Air Force Base Health facility and established a Rural Health Clinic Urgent Care, Laboratory, and Radiology Center, in addition to the original health clinics. Since 1998, more services were added, including a Dental Surgery Center, an Adult Day Health Care, a Pediatrics Clinic, a Women's Health Center, a Women's Health Center and an Adolescent Behavioral Health Center.

**Uses of Loan Proceeds:** BMHCD is intending to purchase ophthalmology equipment and to upgrade its telecommunications and technology infrastructure for the total sum of \$450,000. The proposed HELP II loan is for \$427,500 and will be secured by a lien on equipment and a gross revenue pledge.

**Financing Structure**

- 5-year loan.
- 60 equal monthly payments of approximately \$7,682 (yearly payments of approximately \$92,184).
- Gross revenues pledge.
- A UCC-1 lien on the equipment purchased.
- Loan to value ratio not to exceed 95%, estimated loan to value is 95%, based on purchase price.

**Financial Overview:** In 2007, BMHCD posted an approximate \$1.68 million increase in patient revenues and appeared to continue its profitable operations. BMHCD's balance sheet appears to reflect strong liquidity and debt service coverage and thus should likely comfortably be able to repay the proposed HELP II loan.

**Sources of Funds**

HELP II Loan	\$427,500
Borrower Funds	<u>22,844</u>
Total Sources	<u>\$450,344</u>

**Uses of Funds**

Equipment	\$445,000
Loan Fees	<u>5,344</u>
Total Uses	<u>\$450,344</u>

**Legal Review:** No information was disclosed to question the financial viability or legal integrity of the Applicant.

**Staff Recommendation:** Staff recommends the Authority approve a resolution for a HELP II loan for Bloss Memorial Healthcare District in an amount not to exceed \$427,500 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION  
THE HELP II PROGRAM**

**I. PURPOSE OF FINANCING**

BMHCD is collaborating with the UC school of Optometry at Berkeley to provide Ophthalmology services to the community where BMHCD provides the facility, equipment and support costs, and UC Berkeley will provide the medical staff. Additionally, the increase in BMHCD's services during the past years has necessitated the upgrade of its telecommunications and technology infrastructure.

*Telecommunication and Technology Infrastructure Upgrades*..... **\$ 305,000**

This project intends to upgrade the power and surge protection, network infrastructure, server infrastructure, backup infrastructure, and phone system.

*Ophthalmology Equipment*..... **\$ 140,000**

The equipment includes the following: Iridex Combo Argon/YAG Laser, Zeiss Cirrus HD-Optical Coherence Tomographer, Digital Fluorescein Angiography Camera, Reliance 2000 Procedure Chair, four (4) Reliance pneumatic stools, Crash Cart Complete and other small hand instruments.

*Financing Costs – Authority Loan Fee*..... **5,344**

*Total Uses of Funds* ..... **\$450,344**

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## II. FINANCIAL STATEMENTS AND ANALYSIS

### Bloss Memorial Health Care District Statement of Activities

	For the Year Ended June 30,		
	2007	2006	2005
<b>Revenue and support:</b>			
Net patient service revenue	\$6,615,854	\$4,930,258	\$4,144,353
Partnership income	2,292,971	1,560,725	1,939,471
Rental income	581,925	620,253	587,525
Donations	428,830	397,848	368,715
Tax revenue	324,328	280,403	217,518
Grants	166,275	32,488	12,120
Investment income	110,070	69,872	24,489
Other operating revenues	94,572	44,508	45,361
Total revenue and support	<u>\$10,614,825</u>	<u>\$7,936,355</u>	<u>\$7,339,552</u>
<b>Expenses:</b>			
Salaries and wages	\$4,427,550	\$3,882,521	\$3,280,303
Employee benefits	1,457,023	992,561	994,575
Professional fees	1,014,126	698,537	795,130
Supplies	830,748	559,752	509,411
Depreciation and Amortization	395,901	432,142	430,792
Utilities	380,077	295,707	253,363
Purchased services	339,550	262,733	253,632
Interest expense	11,534	29,668	7,939
Repairs and MTC	142,454	39,936	18,510
Insurance	134,959	85,923	44,933
Rental and Lease	35,087	35,333	32,752
Other operating expense	289,761	233,499	187,199
Total expenses	<u>9,458,770</u>	<u>7,548,312</u>	<u>6,808,539</u>
<b>Change in net assets</b>	<b>1,156,055</b>	<b>388,043</b>	<b>531,013</b>
Net assets, beginning of year	<u>5,860,566</u>	<u>5,472,523</u>	<u>4,941,510</u>
Net assets, end of year	<u>\$7,016,621</u>	<u>\$5,860,566</u>	<u>\$5,472,523</u>

**Bloss Memorial Health Care District**  
**Financial Position**

	As of June 30,		
	2007	2006	2005
<b>Assets:</b>			
Current assets			
Cash and equivalents	2,857,910	2,353,653	1,939,368
Patients account receivable - Net	561,488	386,419	573,498
Other receivables	929,833	469,811	320,429
Assets limited to use	0	55,544	141,444
Estimated third party receivables	655,073	333,200	15,330
Inventories	99,811	75,489	54,132
Prepaid expenses and deposits	95,893	82,941	56,689
Total Current Assets	<u>5,200,008</u>	<u>3,757,057</u>	<u>3,100,889</u>
Other assets:			
Assets limited to use	208,834	181,211	171,161
Capital assets - Net of accumulated depreciation	2,762,707	2,649,095	2,787,865
Other assets - Net of accumulated amortization	419,915	471,611	380,005
	<u>3,391,456</u>	<u>3,301,917</u>	<u>3,339,031</u>
Total assets	<u>\$8,591,464</u>	<u>\$7,058,974</u>	<u>\$6,439,920</u>
<b>Liabilities and net assets:</b>			
Current liabilities:			
Line of credit	197,002	0	0
Current maturities and debt borrowings	114,464	221,915	112,955
Accounts payable	397,956	258,849	226,068
Accrued payroll and related liabilities	865,421	603,181	492,511
Total current liabilities	<u>1,574,843</u>	<u>1,083,944</u>	<u>831,534</u>
Long term debt	0	114,464	135,863
Total liabilities	<u>1,574,843</u>	<u>1,198,408</u>	<u>967,397</u>
Net assets:			
Unrestricted net assets	2,857,077	2,493,927	2,710,207
Temporarily restricted	4,159,544	3,366,639	2,762,316
Total net assets	<u>7,016,621</u>	<u>5,860,566</u>	<u>5,472,523</u>
Total liabilities and unrestricted net assets	<u>\$8,591,464</u>	<u>\$7,058,974</u>	<u>\$6,439,920</u>

**Financial Ratios:**

**Proforma (a)**  
**FYE June, 2007**

Debt service coverage (x)	17.26	6.82	3.02	9.62
Debt/Unrestricted Net Assets (x)	0.08	0.02	0.06	0.05
Margin (%)		11.12	4.89	7.23
Current Ratio (x)		4.76	3.47	1.97

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

## **Financial Discussion – Income Statement**

**In 2007, BMHCD posted an approximate \$1.68 million increase in patient revenues and also appeared to continue its profitable operations.**

Net patient revenues increased by \$1.68 million (34%) from \$4.93 million in FY 2006 to \$6.61 million in FY 2007. In FY 2006 there was a \$786,000 (19%) increase in net patient revenues from \$4.14 million in FY 2005 to \$4.93 million in FY 2006. BMHCD attributes the continuous increase to higher patient volume as well as an increased Medi-Cal reimbursement rate.

Total operating expenses for FY 2007 increased by \$1.91 million (25%) from the prior year. The largest increase was in salaries, which increased by \$545,000 (14%). This increase was due primarily to continued growth and expansion of services and additional staffing to support the expanded services.

### **Particular Facts to Note**

- The partnership income category under Revenue and support (page 3) consists of income from the Dental Surgicenter, a joint venture of which 67% of the shares are owned by BMHCD. Revenues from this category dropped by 20% in 2006 due to interruption associated with expansion of the facility. BMHCD's management indicates that partnership income has been steady and increasing. As a result of this reported success, BMHCD's management reported a plan to construct a new dental surgery center
- BMHCD has explained that the increase in operating expenses displayed under the Expenses section (page 3) for salaries and wages, employee benefits, professional fees, supplies and utilities were caused by this same expansion.
- BMHCD's management reported current plans to target insured patients to diversify their income, as the State of California is still their biggest source of income.

## **Financial Discussion – Balance Sheet**

**BMHCD's balance sheet appears to reflect strong liquidity and debt service coverage, thus it should comfortably be able to repay the proposed HELP II loan.**

Over the review period, BMHCD's assets continued to increase by 10% in FY 2006 and 22% in FY 2007, or \$619,000 and \$1.53 million, respectively. Meanwhile, long-term liabilities have declined by 16 % or \$21,400 in 2006, and were paid off entirely in 2007.

Based on the FY 2007 financial statement, BMHCD appears to have a very strong debt service coverage ratio of 6.82x, indicating its capability to repay its debts. The proforma debt service ratio improves further to 17.26x, due to the fact that all long-term debt was eliminated in FY 2007.

Particular Facts to Note

- BMHCD appears to be very liquid with almost \$2.85 million in cash and cash equivalents. BMHCD's management elected to retain high liquidity as they plan to further expand and construct a new dental surgery center.

**III. UTILIZATION STATISTICS**

**Clients Admitted / (Patient Visits)  
Fiscal Year Ended June 30**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Totals</b>	12,552 / (62,859)	14,753 / (67,854)	15,743 / (74,822)

**IV. ORGANIZATION**

**Background**

Bloss Memorial Hospital District (BMHD) was established in 1958 in Atwater to operate a small inpatient facility and emergency room. BMHD later added a Rural Health clinic at the hospital site and another in the nearby city of Winton to serve the needs of that community. BMHCD later closed inpatient facility and emergency room. In 1998, the hospital and the district's name were changed from Bloss Memorial Hospital District to Bloss Memorial Healthcare District. At about the same time, BMHCD was provided the use of the vacated Castle Air Force Base Health facility and thereafter opened the Rural Health Clinic (including a variety of specialty physicians), Urgent Care, Laboratory, and Radiology Center, in addition to the original health clinics. Additional services added since 1988 include:

- Dental Surgery Center (as Majority partner), 1999;
- Adult Day Health Care, 2005;
- Pediatrics Clinic, 2007;
- Women's Health Center, 2007;
- Women's Health Center, 2007; and
- Adolescent Behavioral Health Center, 2007.

BMHCD's management reported that all the aforementioned have been in operation and are profitable. BMHCD will also open a second Dental Surgery Center in July 2008 in Parlier via a partnership with Sierra Kings District Hospital, and is also in the development stage of opening an Ophthalmology Center in 2008.

**Licenses**

BMHCD is a Healthcare District.

**V. OUTSTANDING DEBT**

<b><u>Date Issue:</u></b>	<b><u>Amount Outstanding as of 6/30/2007</u></b>	<b><u>Estimated Amount Outstanding After Proposed Financing</u></b>
<b>Existing:</b>	\$ -	\$ -
<b>Proposed:</b>		
CHFFA HELP II, 2008 (5-year term)		<u>427,500</u>
<b>TOTAL DEBT</b>		<b><u>\$ 427,500</u></b>

**VI. DUE DILIGENCE:**

Due diligence has been completed with regard to the following items:

- Savings Pass Through: BMHCD has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): BMHCD has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

**VII. STAFF RECOMMENDATION**

Staff recommends the Authority approve a resolution for a HELP II loan for Bloss Memorial Healthcare District in an amount not to exceed \$427,500 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.